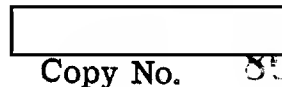


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11 September 1954

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DOCUMENT NO. ~~31~~ 31
NO CHANGE IN CLASS ☒
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NEXT REVIEW DATE: 2010
AUTH: HR 70-2
DATE: 8 Jan 80 REVIEWER:



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CENTRAL INTELLIGENCE AGENCY



State Dept. review completed

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GENERAL**1. France opposes controls over trade with Viet Minh area:**

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The British Foreign Office states that it has received an informal communication from the French embassy criticizing the United States' insistence on controls over trade with North Vietnam as "politically most inopportune and contrary to the principles of Vietnam unity agreed on at Geneva." The French government, according to this statement, considers North Vietnam still part of the French Union and has requested French companies to remain there.

Comment: Ambassador Heath in Saigon believes that exports to French enterprises in North Vietnam would aid Communist China. France apparently hopes to maintain a special position in Vietnam even if the Viet Minh wins control of the entire country, and can be expected to resist vigorously any proposal to make the present China trade controls apply to trade with North Vietnam.

FAR EAST**2. Amoy civil population prepared for possible military activity:**

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During August, Chinese Communist authorities organized Amoy fishermen into companies with 20 fishing boats per company, according to a Chinese fisherman from Amoy who was captured by the Nationalists on 8 September. It was rumored in the area that these boat companies would transport troops to Formosa.

[REDACTED] local propaganda in late August stated that Formosa and Quemoy would soon be "liberated." Amoy residents were ordered to store a month's supply of food and water to be used in case of air raids and to build air raid shelters.

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Comment: Preparations for a full-scale attack on the Quemoy's may well have been under way on the mainland in August. It is uncertain whether Nationalist air and sea strikes since 5 September against Communist targets in the Amoy area have been successful in disrupting any such Communist plan. In any case, observers [REDACTED] report no indication that such an invasion force is being assembled at this time.

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An early Communist invasion of Formosa is not believed to be within Peiping's military capabilities in view of the American commitment to defend the island.

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NEAR EAST - AFRICA

4. Shah pledges full co-operation with Zahedi:

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The Shah [REDACTED]

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[REDACTED] is determined to continue supporting Prime Minister Zahedi as long

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as Zahedi combats corruption and improves the Iranian standard of living. The Shah said that he will co-operate fully with Zahedi now that the oil problem has been settled and internal security prevails. He charged that reports he has been encouraging possible successors to Zahedi are "exaggerated rumors."

Comment: This declaration of support for Zahedi is probably intended to impress Washington. On the basis of his previous behavior, his promise must be treated with reserve. He is subject to the vagaries of Iranian politics and may keep Zahedi in office only as long as the United States and Britain continue pressing him to do so. The Shah has always shown jealousy of strong prime ministers.

5. Zahedi concerned over extent of Communist penetration of Iranian armed forces:

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Prime Minister Zahedi told Ambassador Henderson on 7 September that he was appalled by the long-standing Communist success in penetrating the officer corps of Iran's armed forces, gendarmerie and police revealed in recently captured Communist documents. Many of the officers scheduled for arrest as a result of these disclosures held responsible positions and had reputations for honesty.

The proved ability of Soviet operatives to survive many changes of government was illustrated by the admission of some of the arrested officers that they had been Soviet agents for more than 20 years. Zahedi estimated that these officers could have simultaneously assassinated all of Iran's key political and military leaders.

Comment: More than 400 Iranian officers have already been arrested in the current roundup of antigovernment suspects.

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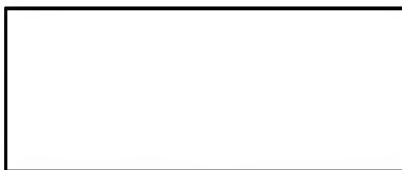
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EASTERN EUROPE

7. Soviet administrators and technicians reported leaving Hungary:

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A "sizable number" of Soviet civilian administrators and technicians in Hungary are reported  to be preparing to return to the USSR. The

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American legation believes that the withdrawals may be a result of the over-all cutback in Hungarian government spending now under way, and may be aimed at avoiding popular criticism that Soviet advisers are being retained while large numbers of Hungarian workers are being dismissed.

The legation reports that the Hungarian population appears to be in an "excitable mood" as a consequence of the uncertainty and anxiety growing out of the current wave of dismissals of government and industrial white-collar workers.

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Comment: More than 100,000 Hungarian workers, mostly government and industrial office workers, are reported to have been dismissed in the past few weeks in an effort to divert funds to the new investment program. These dismissals have reportedly resulted in instances of worker resistance requiring police action.

In addition to cutting government expenditures, the reduction in the number of Soviet advisers will lessen public awareness of Soviet control and give the appearance of greater sovereignty to the government. While a number of Soviet advisers attached to Czech agriculture and the Polish shipbuilding industry have also reportedly returned to the USSR during the past year, there has been no similar reduction reported in the number of Soviet advisers in the Satellite military or security organizations.

WESTERN EUROPE

8. Belgians and Dutch favor German entry into NATO and special European association:

Officials of both the Belgian and Dutch Foreign Ministries have stated that their countries favor West German admission to NATO, with subsequent efforts to develop safeguards, possibly within a special grouping of Western European nations.

Belgian foreign minister Spaak told American embassy counselor Sprouse on 7 September that he is opposed to any "little NATO" concept.

A Dutch Foreign Ministry spokesman told American officials on 8 September that there was some skepticism about German rearmament under self-imposed restrictions that could be thrown off at any moment.

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